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INTRODUCTION

The Office of Internal Audit performed a limited scope audit of Maxey Training School for the period October 1, 1997 through February 5, 1998. The objectives of our audit were to determine if internal controls were in place to provide reasonable assurance that transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Maxey Training School had 444 full time equated positions (FTE's) and 21 vacancies at the time of our review .

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of systems operating at the Maxey Training School, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Payroll - Overtime Pay

Medical Expenses

Business Office Activities

Revolving Inventory Tracking System (Food, Clothing, Supplies)

EXECUTIVE SUMMARY

Based on our limited scope audit, we conclude that the Maxey Training School internal controls need improvement to provide management with reasonable assurance that Internal Controls are

in place for the systems listed in the proceeding paragraph and transactions are executed in accordance with management's authorization. We did, however, find instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

SCHOOL RESPONSE

Maxey Training School has reviewed all findings and recommendations included in this report. They indicated that they are in agreement with the majority of the report, and are in the process of implementing corrective action. However, for Item #2 they believe that having the supervisor indicate on the Employee Time and Attendance Worksheet whether or not the overtime was preapproved is adequate. They admit that this form is not always accurately completed.

FINDINGS AND RECOMMENDATIONS

The following are areas where we found that the Maxey Training School was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

Medical Expenses

1. Maxey Training School did not retain their Daily Medication Receipt Logs and/or Wing logs, for the period prior to February 1, 1998. Maxey Training School entered into a contract for health care services beginning February 1, 1998 and destroyed the logs at that time. Maintaining the appropriate prescription logs provides documentation that the prescriptions were received and were given to the appropriate youth at the proper time.

WE RECOMMEND that Maxey Training School ensure that health care services provider retains the appropriate prescription logs.

Payroll - Overtime Pay

2. Maxey Training School did not have adequate internal controls to monitor and control employee overtime. The employees' supervisors did not always prior approve overtime pay as required by the schools policy. As a result, the School could not always document that employee overtime was necessary and properly authorized.

WE RECOMMEND that Maxey Training School develop an internal control procedure to monitor and control employee overtime.

Payroll Record Keeping System

3. Maxey Training School did not have an adequate record keeping system in place for payroll records. We were unable to locate seven time sheets out of 36 (19.5%) for the period tested. We also were unable to obtain time sheets for the Maintenance employees and the Campus Administration employees while we were on site. Maxey is responsible for establishing and maintaining a internal control system to provide reasonable assurance that employee work hours are properly documented and supported.

WE RECOMMEND that Maxey Training School develop an internal control system to properly document employee work hours and maintain the time sheets.

Revolving Inventory Tracking System (Clothing, Supplies)

4. The Maxey Training School warehouse did not maintain a proper inventory tracking system. We reviewed 26 out of 547 (5%) and found 8 items (31%) on hand that differed from the inventory records. Having an inventory tracking system that accurately accounts for all inventory items will help reduce the risk of items being lost or misused.

WE RECOMMEND that Maxey Training School implement an inventory tracking system to properly account for the items on hand in the warehouse.

Food Service Inventory

5. The Maxey Training School did not maintain an adequate inventory tracking system for food service items. We tested 15 items and found no inventory records for six of the items, four items were not posted up to date and one item had a physical count of 195 less than what was reflected on the inventory records. Implementing an inventory system that accurately accounts for the food items will help reduce the risk of items being misused.

WE RECOMMEND that Maxey Training Schools develop and implement an food inventory tracking system that accurately accounts for items on hand.